BOOK REVIEWS.

On the Shifting and Incidence of Taxation. By EDWIN R. A. SELIGMAN, Professor of Political Economy and Finance, Columbia College. Publications of the American Economic Association, Vol. VII., Nos. 2 and 3, pp. 191.

Sinking Funds. By EDWARD A. ROSS, Ph. D., Associate Professor of Political Economy and Finance in Cornell University. Publications of the American Economic Association, Vol. VII, Nos. 4 and 5, pp. 106.

Taken together, these two monographs published under the auspices of the same association and following, one the other, in swift succession, show the increasing interest that American economists are coming to have in a branch of their science which, a decade ago, attracted but little scientific attention in this country. But the growing practical importance of the great questions of taxation and finance, and the clearer recognition that something may be done toward their solution by scientific treatment, have helped to naturalize the study of public finance on our soil in recent years. Professor Seligman has had a leading share in this movement and we are glad to find in his present monograph renewed evidence that we have in our midst some writers who are prepared to touch the most difficult problems of public finance with a strong hand. For Dr. Seligman's essay is an undoubted contribution to the literature of taxation, if indeed it is not the very best treatment the subject of incidence has received from any modern writer. The same may not be said of Dr. Ross's monograph. It is a somewhat "uneventful" essay on a time-worn theme, exhibiting few traces of real scholarship, and throwing no new light upon the difficulties of his subject. At best it will be found a convenient summary for the uninformed reader.

In the present essay, Dr. Seligman has boldly grappled with the delicate and intricate problem of the incidence of taxation—one of the most perplexing problems in the whole range of financial science, con-

sidered either in its theorerical or in its practical aspects. The discussion is always vigorous and stimulating, sometimes profound, and will be found most full of suggestion even where one is most inclined to differ from the specific conclusions reached by the author. But whether we accept the conclusions or not, all who are acquainted with the unsatisfactory character of the attempts hitherto made to unravel the intricacies of this knotty question, will at least feel indebted to Dr. Seligman for the clearer light in which he has put the problem. The older, or Ricardian doctrine of incidence revealed both the merits and the weakness which was characteristic of that whole system of political economy. It was purely hypothetical, perhaps necessarily so, in a first approximation toward the truth. But the purposed simplification of the phenomena under treatment, taken with their limited interest in the practical aspects of the discussion, kept the older economists from pushing their inquiries into the deepest difficulties of the problem and so reaching results of more permanent value. Much more surprising than the incompleteness of the theories of the older writers is the scant treatment that the important problem of incidence has received at the hands of most present-day writers. The Germans who have made so many notable contributions to other parts of financial science have done almost nothing in this connection. The learned, voluminous, and otherwise exhaustive treatises of Wagner, Roscher, Schäffle and Cohn are almost silent on the vital question of incidence. Their neglect of it almost induces the suspicion that they have inadequately appreciated its real bearings. For the problem of justice in the distribution of the burdens of taxation which these writers have placed in the very foreground of discussion, admits of only a very partial solution until aided by the teachings of a sound doctrine of incidence. This becomes fully apparent the moment the problem is stated; and popular discussion has always conceded it.

It has been recognized since the time of Tacitus that a tax is frequently advanced by one person and ultimately paid by another. The most simple case is that of taxes on commodities; the distinction between the so-called 'direct' and 'indirect' taxes rests largely upon this basis. And the bottom has dropped out of that distinction—at any rate, as one of scientific value—precisely because a more exact analysis of the complicated phenomena of taxation has demonstrated that the processes by which pressure applied at one point is diffused over a wider area are too subtle and elusive to admit of such simple ascer-

tainment as the distinction would imply. It is frequently possible, only after most careful reasoning and a clear appreciation of the general conditions, to discover with tolerable certainty on whom the burden of a given tax really and finally rests, wherever it may have originally been imposed. The result is called the *incidence*, the process the *shifting*, the object of the inquiry being to distinguish the real tax-bearer from the nominal tax-payer. And only as this problem meets with a satisfactory solution will it be possible, even theoretically, to devise a scheme of taxation that shall really distribute the burdens of taxation in the proportions demanded by justice. It is the most fundamental problem in the science of taxation, because it is involved in almost every other; and substantial progress is impossible until it is fairly faced and disposed of. The equities of contribution are a mere dream until it is ascertained with precision what opposition their attainment is likely to encounter from the action of economic forces.

The present monograph falls into two parts—the one critical and historical, the other constructive and dogmatical. A sufficiently elaborate review is made of the different theories of the incidence of taxation in a chapter of 75 pages. This is followed by six chapters of 100 pages discussing in detail the incidence of taxes on agricultural land; on urban real estate; on personal property, capital and interest; on profits; on wages; and on certain minor taxes. A concluding chapter shows the application of the results reached to the general science of finance.

For purposes of the historical review the author classes the writers on taxation into ten different schools more or less clearly distinguishable by their doctrines of incidence. His presentation of their views is usually faithful, for he has taken evident pains to understand them and grasp their meaning in its entirety. But he occasionally makes a slip and sometimes unnecessarily emphasizes minor defects or points of difference. We stay to notice but one of these. Ricardo, whose name is properly associated with the authorship of the absolute theory, receives extended notice. But it may be questioned whether Dr. Seligman has really caught the essence of the Ricardian doctrine, when, in summing up, he says: "It will be readily seen that these teachings of Ricardo depend entirely upon the wage (*sic*) fund theory" (p. 37). To say that Ricardo held the wages-fund doctrine is at least a questionable statement and one that needs some other proof than the unsupported dictum of the author. Ricardo held the wages-fund theory about

as much and as little as Adam Smith held the Ricardian doctrine of rent, and the reader who proceeds upon the contrary assumption will certainly fail to adequately understand Ricardo's doctrine of incidence. The wages-fund doctrine means something, and not everything that the economists of the classical school ever wrote on the subject of wages. Ricardo's was in truth a theory of proportional wages, but the wages-fund theory was an attempt to explain the fact and conditions of absolute wages, and, as such, it does not emerge in a distinct form in the history of economic theory, until the publication of Senior's article in the *Metropolitana;* it certainly does not antedate the elder Mill's *Political Economy.* It may, indeed, be well questioned whether Ricardo would have adhered so tenaciously to the belief that taxes on wages would inevitably and ultimately diminish profits, if he had held the perfected form of the wages-fund theory—certainly, not without having first tried to estimate the reactionary effect of diminished profits on wages through the influence exercised on the motives to the accumulation of wealth.

Nevertheless, Dr. Seligman has done well to attempt a modification of the Ricardo-Mill doctrines of incidence in the light of a more searching examination of some of their fundamental premises. The weakness of their general economic theory was the too unqualified assumption that free competition would bring about an almost perfect equality of profits. The fact was that neither capital nor labor possessed the degree of mobility assumed. Ricardo was probably aware of this fact, although the commercial and industrial conditions of his time gave much support to his assumption. Mill certainly knew it, and tried to justify this method, in connection with his treatment of the laws of value and distribution, on the ground, "that only through the principle of competition has political economy any pretension to the character of a science." Studies of later economists have shown, however, that political economy does not forfeit its scientific claims by more narrowly circumscribing its fundamental assumptions; rather do they establish that this will be the time of advance for the future, and that, in this wise, political economy will take on, more and more, the true character of a concrete science, and become a more and more valuable aid to the science of legislation. But the concrete method has its difficulties, its dangers, and its limitations, and some of these are exemplified in Dr. Seligman's treatment of one of the pivotal questions of incidence—the incidence of taxes on land.

Passing by the less important forms of land taxes, we will examine the author's treatment of the more common ones of "the tax assessed according to net profits, or to selling value of the property" (p. 95). These two bases of the tax are treated by the author as equivalent. They are, so far as concerns incidence, but not in the matter of assessment, as too many tax-payers perfectly understand. They would not necessarily be equivalent, even on the assumption that "the selling price of agricultural land is nothing but the capitalized value of the net profits ordinarily derived from its use."[1] They might be equivalent, if selling price varied always and only with variations in the amount of net profits. But this is what it does not do as Von Hock has pointed out.[2] Selling price of land varies with many other circumstances, independently of changes in the amount of the net produce, not the least important among which are changes in the general rate of interest. It might well, therefore, make a considerable difference in the amount of the tax whether it were assessed on the basis of selling value or of net produce; it would, however, make no difference in its incidence.

According to Ricardo, such a land tax would be shifted to the consumer in the price of agricultural produce. Such a tax, falling upon all land, would raise the marginal expenses of production, which determine price, and, unless the farmer could reimburse himself for his increased outlay by increased prices, he would withdraw his capital and labor and employ it elsewhere; and this decrease of supply would raise prices. Dr. Seligman rejects Ricardo's conclusion because

[1] We hardly know how to reconcile the writer's phrase, "net profits ordinarily received," with his subsequent explicit and repeated denial of the existence of normal or natural profits. Again (on p. 97) he seems to base a part of his reasoning on the doctrine of "usual profits," which are somewhat arbitrarily, though evidently with reference to some supposed *natural* and *normal* standard, defined as "just sufficient profits above the cost to enable him [the farmer] to live comfortably.

But one is still more inclined to wonder why the writer has not gone more directly to his conclusion as to the non-transferability of a tax on agricultural profits. If he had reasoned consistently with his no-profits theory of distribution and value, logically, he should have shown that the tax — being a tax on net profits — could not enter into the marginal expenses of production (*i. e.*, of that portion of the produce produced on the margin of production), since that portion, according to the no-profits theory, is produced under conditions which yield no profit; and so, consequently, that the tax could not be shifted. Or does Dr. Seligman, perhaps, assume a law for agricultural profits different from that for business or other producer's profits?

[2] *Oeffentliche Abgaben und Schulden*, p. 183.

he is unable to accept the conditions upon which it rests. In his view, the tax in actual operation will tend to rest on the land-owner and not on the consumer, because "only when the tax is so exorbitantly high as to swallow up the whole rent and the whole profits, so as absolutely not to leave the cultivator any margin for living expenses, will he abandon the land in such large quantities as to affect a material decrease of supply" (p. 97). This is certainly a somewhat extravagant assertion, and one that must have been made when the writer was suffering under an intense reaction from the Ricardian economics. If Ricardo erred in too incautiously assuming for capital and labor a degree of mobility which does not in fact exist, Dr. Seligman has grievously erred in rushing into the opposite extreme, implied in his drastic assumption of an almost absolute immobility of capital and labor. Doubtless the *vis inertiæ* of agricultural capital is much more considerable than that of trade capital, but is it quite so sluggish in its movement as Dr. Seligman has allowed himself to assume? Certainly he adduces no real evidence in support of his view, though the point is one of crucial importance. If we may credit the judgment of an English economic historian, who, whatever his shortcomings may be, will certainly not be charged with a prejudice in favor of Ricardo, the latter was not very far out of touch with the actual condition of agricultural industry in his day, when he based his reasoning on the assumption of free competition. Hear what Dr. Cunningham has to say on this point:

"When he wrote of agriculture or of anything else, he wrote of it with full and special consideration of the circumstances under which it was carried on in his own day. . . . and as farming had become, throughout the country generally, a trade rather than a means of procuring subsistence, the fundamental condition of competition was present. Farming in 1815 was still largely extensive; a fall of prices resulted immediately in certain land going out of cultivation. If prices rose again, it might be predicted with certainty that the same land would be brought back again into cultivation."[1]

And recent investigations into the agricultural history of our own country disclose a striking correspondence between variations in the prices of produce and in the extent of cultivated acreage.[2] Indeed,

[1] *The Growth of English Industry and Commerce in Modern Times*, p. 572. Cambridge, 1892.

[2] See an excellent article on the Price of Wheat since 1867, by Dr. T. B. Veblen, in the first number of this *Journal*, December, 1892.

they establish that price has been one of the most active of the controlling factors in determining the variations of acreage sown to different crops, and that a decrease of supply is by no means the almost impossible process pictured by Dr. Seligman. We quote from Dr. Veblen's study a paragraph on the most recent period of our agricultural experience, touching this point:

"As already noted, there was no great radical change directly affecting the production of wheat during the years after 1881, except the change in prices. But while the change in price was so nearly the only great change of the period, that change was unprecedented in magnitude and character, and the resulting, or, perhaps some would prefer to say the accompanying, change in the movement of the wheat acreage in this country has been no less serious and unprecedented. The total acreage sown to wheat, which for a series of years previous to 1880 had habitually increased by a yearly addition of something like ten per cent., practically did not increase at all, in the aggregate, from that time until 1891."[1]

Furthermore, the question does not ordinarily present itself to the farmer in the form of an alternative, as Dr. Seligman too hastily assumes, between wholesale abandonment of the land and continued production at unremunerative or ruinous prices. There are more simple and less costly methods of diminishing supply. Dr. Cunningham has pointed out that in England at the present day, when times are bad, land may fall out of condition, even though it be retained in cultivation. And the American farmer is sufficiently well acquainted with the varied capacities of the soil to understand that one crop may frequently be made to pay when another will not; that good wheat land will also raise good swine; that it is a part of the business of an intelligent farmer to be constantly studying the conditions of the market, so as to know to what use his land may be best put.

Our conclusion, then, is that the Ricardian hypothesis is still sufficiently near the actual conditions of agricultural industry as practiced in this country and England to establish a presumption in favor of the validity of the doctrine of incidence logically deduced from it; that there is a distinct tendency for a tax upon agricultural profits, taken by itself, to be shifted to the consumer—a tendency that is bound to assert itself "in the long run"; and that in America a part and probably a considerable, though varying, proportion of the tax on farming capital

[1] *Ibid.*, p. 99.

is so shifted at the present time. At any rate, the balance of probability seems to lie on the side of Ricardo's doctrine, and this, notwithstanding the fact, whose importance it is very easy to overestimate, that under the conditions of modern international trade the price of agricultural produce is frequently fixed in a market outside the limits of the country where the produce is raised and the tax imposed.

But though Dr. Seligman has hardly made good his promise of paying particular attention to the practical aspects of the discussion in his treatment of taxes on agricultural land, the same may not be said of the chapter on the incidence of taxes on urban real estate. His treatment of this subject is eminently satisfactory, and the results reached are of solid value. By closely attending to the legal incidents affecting building and land tenures, by a more exact analysis of the concrete conditions surrounding the letting and hiring of house property, and by a fuller appreciation of the importance of the time element in modifying the factors of the problem, he has thrown much new light upon the jumble of imperfect ideas that have hitherto enveloped the treatment of this important topic. And above all he has shown the necessity of attending to the *original* imposition of a tax—a point which has been slighted by many writers, but one which is of the first consequence, as Dr. Seligman's carefully worked out conclusions amply demonstrate. Owing to the retarding force of economic friction, a tax is very apt to stick where it is first imposed. Of two taxes assessed upon the same objective basis but collected at different points in the chain of relations in which different persons stand to the thing taxed, the ultimate incidence may be very different. This result is very well exemplified in a comparison of the tax on urban real estate in England and America. This tax is composed of two parts—that upon the ground, and that upon the building. Smith and Ricardo reasoned that the ground-rent portion of the tax would rest on the ground-owner and the tax upon the building be shifted to the occupier. But this is one of those theoretical conclusions that needs qualification in the light of actual conditions. In America, where the whole of the real property tax is collected from the owner, the burden of the tax is likely to distribute itself as Smith assumed. But in England, where the local real estate tax is assessed according to the rental value of the premises and collected from the occupier, the main burden, including even the ground-rent portion of the tax, as Dr. Seligman shows, is apt to remain normally and finally

on the occupier. The incidence of a tax on ground-rent may thus be very different accordingly as it is paid in first instance by the occupier or by the owner.

That part of the present monograph that is likely to excite most interest and at the same time provoke most criticism and disagreement, is the investigation of the incidence of taxes on profits. It is here that Dr. Seligman's theory of incidence differs most widely from that of former writers, and naturally so, for it is based upon a different theory of value and distribution. The pivotal point of his theory is based upon the unreal and dangerous abstraction of a so-called "no-profits middleman." He is described as the producer on the margin of production, who produces without profits by simply getting back his expenses; and it is he that fixes price. The leading features of Dr. Seligman's doctrine of value and distribution may be briefly indicated in the following chain of theses: "The normal or natural rate of profits does not exist" (p. 145); "cost does not include profits" but "is the condition of profit" (p. 158); "profits depend on price" (p. 141); and price "tends to equal the cost of those articles of the class produced under the most disadvantageous conditions" (p. 145). An ample discussion of the doctrine of incidence based upon the theory of value here propounded must be reserved for another time and place. It will be sufficient to here point out one or two cases in which Dr. Seligman seems to have proved too much from the standpoint of his peculiar theory.

It will be noticed that nothing is said of interest in this theory of distribution and we are left to infer whether it is to be included in "profits." Probably it is not, "profits" being used in the limited sense of net earnings of management. Now, even granting it to be possible, theoretically, to draw a line between profits and interest, in practice it is as good as impossible to separate the two with accuracy. And in an investigation of so practical a subject as incidence some notice should have been taken of this difficulty, for it may sometimes give rise to important consequences. On Dr. Seligman's own theory, the extent to which the receiver of interest and the receiver of "profits" can shift taxation can not be the same. The incidence of a tax on profits as profits are actually constituted (including interest) might be different according as it cut off more of one element than of the other in different cases. A tax seemingly equal might bear with unequal degrees of pressure on interest and earnings

in different actual cases and thus very much modify its eventual incidence. Such cases should have received some attention.

This same neglect to discriminate sharply between earnings of management and interest seems to be responsible for Dr. Seligman's rejection of the widely current "excess-of-price-above-tax doctrine." This doctrine asserts that the price of a commodity is frequently—especially when imposed in the early stages of production—raised somewhat higher than the amount of the tax, because, as Adam Smith put it, "the dealer must generally get it back with a profit." But Dr. Seligman denies this conclusion, because it rests upon the untenable doctrine of natural profits. "The middleman cannot add his profits to the price, because, in a state of competition, price is always fixed by the cost of the most expensive increment, *i. e.*, in the case of the middleman by the no-profits middleman" (p. 158). This contention rests really upon the impalpable assumption that taxes form no part of expenses. Only on that assumption could it be true that the price would not be raised above the amount of the tax. For, if the tax does enter into expenses of production, as Dr. Seligman allows it does, then it would constitute an element of outlay on which even the "no-profits producer" would expect, and in the long run would receive, *interest*, if not "profits," equally with every other portion of his investment of capital; unless, indeed, the no-profits producer is also to be regarded as a no-interest receiver. The tax would be, therefore, not a simple addition to price, but an addition with interest, at least. Numerous instances showing this effect of a tax upon prices could be found, it is believed, in the history of our internal revenue system.

We point out one other case, closely related to the preceding one, in which the author does not seem to have reasoned strictly consistently with his fundamental positions. "A tax on the profits of some particular occupation must be shifted to the consumer; for if the tax rested on the particular profits, the producer would be put at a disadvantage" (p. 164). Such was also the conclusion of the writers who held the doctrine of normal profits, and in their view the validity of their conclusion turned upon the soundness of this doctrine. As such it was perfectly intelligible. But it is not easy to see how a tax on profits can be shifted, if profits depend on price, and price is fixed by the no-profits producer. The producer who enjoyed no profits would of course pay no taxes, but it is he who, according to Dr. Seligman's theory of value, would fix price. The case is quite analogous to that

of a tax on rent, which could not raise the prices of produce, since it would not affect the producer on the margin of cultivation. A consistent application of the no-profits theory of distribution, it is believed, can lead to but one conclusion: that a tax on competitive profits can under no ordinary circumstances be shifted—a conclusion that stands equally opposed to experience and to reason, and that points to the structural weakness of that whole theory of distribution and the doctrine of incidence shaped according to it. The unqualified acceptance of that theory by the author of the present monograph has seriously imparied its value and permanent importance.

However much Dr. Seligman may have advanced the discussion of incidence beyond the point at which he took it up, he has yet left gaps to be filled and corrections to be supplied. He has not said the last word on the subject; much still remains to be done. It will, however, be done the easier because of the clearer light in which the present monograph has put the problem. The treatment of incidence is likely to gain much at the hands of those writers who are of a mathematical mode of thought. We may expect that the theory of incidence, at least, will be advanced to a more final form when Professor Marshall takes up the problem in his second volume and brings to its solution his admirably equipped mathematical mind and his more adequate theories of value and distribution. Meantime we may be grateful for the solid ground won in Dr. Seligman's monograph.

Little needs to be said of Dr. Ross's essay on *Sinking Funas*. It is of an entirely different quality from the work just noticed. It is an attempt to construct a theory of "amortization" on the basis of the financial experiences of England and the United States. A perusal of the eighty-five pages devoted to the historical survey does not prepare one for a very ambitious theory of "amortization,"—a subject which, in spite of great difficulties, the writer tries to dispose of in a chapter of twenty pages. The whole treatment is superficial. The historical review is inadequate, the theoretical work is flimsy. Nor is the essay free from unpardonable and unscholarly inaccuracies, of which the account of the origin of British "consols" may be taken as an example. Dr. Ross says they originated from the "hypothecation of Pitt's consolidated fund to the public creditors." But it is a familiar fact that the term was in use almost thirty-five years before Pitt combined the revenues into the Consolidated Fund; and had quite a

different origin. The term was applied to the consolidated three per cents provided in 1752, when, under the act of 25 George II. c. 27, various small three per cent. stocks were *consolidated*. It was from this process that they had long derived the familiar designation of "Consols."

The special student will learn nothing new from this essay, but the general reader may use it as a convenient résumé, sufficiently full for his purposes. A. C. MILLER.

Who Pays Your Taxes? By DAVID A. WELLS and others. New York: Putnam. Pp. 239.

This series of short articles on taxation includes materials drawn from various sources, but here brought together by the New York Tax Reform Association as essentially representing its principles. The motive of the book may, accordingly, be understood from the platform of that society, which declares the present American system of state and municipal taxation hopelessly bad, and offers in its stead a system of which the chief characteristics are: first, exemption of "mortgages and capital engaged in trade, because taxes on such capital tend to drive it away, to put a premium on dishonesty and to discourage industry; and second, the imposition of taxes chiefly on real estate," because such taxes are most easily, cheaply and certainly collected, and because they "bear least heavily on the farmer and the worker."

The attack on the general property tax is sufficiently convincing, the material being derived in the main from the writings of Mr. David A. Wells and Mr. Thomas G. Shearman. The constructive work is not equally satisfactory, this being aside from objections to the two familiar theories which furnish a general basis for the system—the "diffusion" theory of incidence, and the theory that the rental value of real estate is a measure of the value of accompanying personality and of the ability to pay taxes. More than one writer of the series is led into extravagance by an excessive fear of "discouraging" some form of economic utility or activity, failing apparently to realize that taxation must fall somewhere, and that it must exert an unpleasant pressure wherever it rests. Thus the income tax is denounced (p. 126 and seq.) because it is a tax on thrift, which ought not to be discouraged—just as though taxes could ordinarily be imposed otherwise than on income and at the risk of discouraging thrift. In the same vein (p. 8) the income tax is said to be objection-